

## Message Text

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ACTION EB-08

INFO OCT-01 AF-10 EUR-12 ISO-00 SP-02 USIA-06 AID-05  
NSC-05 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03  
LAB-04 SIL-01 L-03 H-01 PA-01 PRS-01 IGA-02 /098 W  
-----121720Z 038914 /43

P R 121315Z APR 77

FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC PRIORITY 2947

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 2 KINSHASA 3407

DEPT PASS COMMERCE, EXIM, TREASURY

E.O. 11652: GDS 12/31/83

TAGS: EFIN, ECON, CG

SUBJECT: 1977 GOZ STABILIZATION PROGRAM

REF: A) KINSHASA 2160, B) KINSHASA 2145, C) KINSHASA 1879  
D) KINSHASA 1298, E) STATE 066774

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1. SUMMARY: ACCORDING TO STATE FINANCE COMMISSIONER BOFOSSA, IMF STABILIZATION PLAN WAS SUCCESSFULLY APPLIED IN 1976 TO ALL SAVE PUBLIC FINANCE AND FOREIGN EXCHANGE SECTORS, RATE OF DECLINE OF ZAIRIAN ECONOMY HAVING SLOWED FROM 6.1 PER CENT IN 1975 TO 1.4 PER CENT IN 1976. HOWEVER, CONTINUED DECLINE WILL FORCE ADHERENCE TO A SECOND STRICT PROGRAM FOR 1977, INCLUDING A TIGHT BUDGET, CURTAILED CREDIT EXPANSION, SMALLER BOP DEFICIT AND LIMITATION ON FOREIGN BORROWING. GOZ CONTINUES TO COUNT ON INCREASED AND \$250 MILLION IN POSSIBLE PRIVATE BANK CREDITS TO PULL THEM THROUGH AND HAS HINTED THAT IT WILL REQUEST  
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FURTHER DEBT RESCHEDULING. EMBASSY DOUBTS THAT GOZ WILL BE ABLE TO LIVE WITHIN PROPOSED SPENDING GUIDELINES GIVEN CURRENT POLITICAL SITUATION. EXPORT AND IMPORT PROJECTIONS APPEAR SOMEWHAT CONSERVATIVE AND BOP PROJECTIONS SEEM TO INCLUDE CAPITAL INFLOWS THAT ARE UNLIKELY TO MATERIALIZE. END SUMMARY AND END  
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2. IN A MEETING WITH DOMESTIC AND FOREIGN PRESS APRIL 8, STATE COMMISSIONER FOR FINANCE BOFOSSA GAVE FOLLOWING ASSESSMENT OF GOZ'S 1976 ECONOMIC PERFORMANCE AND PLANS FOR 1977.

3. 1976 PERFORMANCE EVALUATION: DESPITE DEVALUATION OF THE ZAIRE AS PART OF IMF STABILIZATION PROGRAM, NOT ALL HOPED FOR RESULTS ACCRUED. IN PARTICULAR, NET GAIN TO TREASURY, FROM EXPORT SECTOR IN GENERAL AND GECAMINES IN SPECIFIC, WAS WELL BELOW THAT ANTICIPATED (Z490 MILLION INSTEAD OF 615-620 MILLION ZAIRES). THIS HAD STRONG IMPACT ON PUBLIC FINANCE COMPONENT OF THE PROGRAM. IN ADDITION, PRICES, WHILE ADJUSTED IN SUCH A MANNER AS TO HOPEFULLY STIMULATE THE PRODUCTIVE SECTOR, DED NOT HAVE SUFFICIENT EFFECT ON AGRICULTURAL PRODUCTION SO AS TO PRODUCE EITHER EXPORTABLE SURPLUS OR EVEN SELDF SUFFICIENCY. NOR DID BUSINESS CREDIT EXPANSION COME ANYWHERE NEAR PLANNED (ZQQP MILLION) LEVEL, TOTALING ONLY Z40 MILLION AT YEAR END. HOWEVER, RESTRICTION OF IMPORTS TO PRIORITY SECTORS (FOOD, PHARMACEUTICALS, RAW MATERIALS AND SPARE PARTS) WAS REASONABLY EFFECTIVE, ESPECIALLY WITH AID OF \$150 MILLION IN IMF COMPENSATORY FINANCING, FIRST CREDIT TRANCHE STANDBY, AND PETROLEUM FACILITY. GROSS BALANCE OF PAYMENTS DEFICIT REDUCED FROM SDR 443 MILLION IN 1975 TO SDR 135 MILLION IN 1976. HOWEVER, THIS WAS SDR 15 MILLION SHORT OF PROPOSED MARK FOR YEAR. SALARIES WERE MODIFIED AND RESTRAINED WITHIN "LIMITS OF POSSIBILITY".

4. BUDGET DEFICIT SIZE: THESE RESULTS ARE IN PRINCIPLE ATTRIBUTABLE TO GECAMINES' DIFFICULTY IN OBTAINING PRIMARY GOODS, CONFIDENTIAL

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HARD CURRENCY AND FUEL DURING THE SECOND TRIMESTER OF 1976 AND RESULTING DROP IN WIREBAR AS OPPOSED TO CATHODE PRODUCTION. THE LOSS OF GOZ REVENUE ATTRIBUTABLE TO GECAMINES' PROBLEMS IS ESTIMATED (BY GOZ) IN NEIGHBORHOOD OF Z100 MILLION. ADDITIONAL GOVT REVENUE LOST IN CUSTOMS AREA BECAUSE OF FORCED SWITCH TO LOWER VALUED CATHODE PRODUCTION.

5. THIS SHORTFALL RESULTED IN CREATION IN 1976 OF A GOVERNMENT BUDGET DEFICIT OF Z310 MILLION, Z40 MILLION IN TREASURY BONDS, AND Z270 MILLION IN UNSECURED CENTRAL BANK DEPOSITS. THIS IS FIVE TIMES PROGRAMMED DEFICIT.

6. IN SHORT, BUDGETARY AIMS OF STABILIZATION PROGRAM WERE NOT ACHIEVED FOR FOLLOWING REASONS: (1) PREVIOUSLY MENTIONED GECAMINES PROBLEMS; (2) UNCONTROLLED SALARY GROWTH IN CERTAIN SECTORS, IN PARTICULAR EDUCATION, (3) NEED FOR EMERGENCY ASSISTANCE TO EXPORT SECTORS WHOSE NORMAL TRANSPORT LINES WERE BLOCKED, VIZ SMK MANGANESE MINES; (4) LARGE COST OVERRUNS ON PRIORITY PROJECTS SUCH AS INGA-SHABA TRANSMISSION LINE.

HARD CURRENCY EXPENDITURES BY GOVT FOR THE YEAR ALSO RAN AT ABOUT Z30 MILLION ABOVE PROJECTION.

7. DEBT SERVICE RELIEF: TO EASE SOME OF THE STRAIN PRODUCED BY HIGH FOREIGN EXCHANGE REQUIREMENTS FOR DEBT SERVICE, GOZ ENTERED INTO TWO DEBT REDISTRIBUTION AGREEMENTS, ONE RESCHEDULING AGREEMENT FOR 1975, 1976, AND 1977 FOR OFFICIAL FOREIGN DEBT AND ONE FOR \$250 MILLION IN REFINANCING OF PRIVATE DEBT. THE ESTIMATED TOTAL OF RESCHEDULED GOVT DEBT PAYMENTS OVER 1975-77 PERIOD IS \$315 MILLION. TOTAL PRIVATE BANK DEBT PAYMENTS FALLING DUE FOR PERIOD 1975-77 ARE ESTIMATED AT \$224 MILLION. GOZ EXPECTS THAT IN THIS CASE THE \$250 MILLION IN CREDITS TO GE GENERATED FROM LONDON AGREEMENT WILL PROVIDE A SUFFICIENT HARD CURRENCY MARGIN TO MAINTAIN IMPORTS OF ESSENTIAL GOODS.

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AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
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C O N F I D E N T I A L SECTION 2 OF 2 KINSHASA 3407

8. 1977 PROGRAM:  
A. BUDGET: REVENUE FOR 1977 IS ESTIMATED AT Z674 MILLION ASSUMING (1) AN AMELIORATION OF THE GECAMINES SITUATION; (2) INCREASED TAX REVENUE FROM NEW TAXES ON COFFEE, PETROLEUM, ALCOHOLIC BEVERAGES, TOBACCO, RADIOS AND TELEVISIONS, AND DRIVERS LICENSE RENEWALS; AND (3) IMPROVED TAX COLLECTIONS. EXPENDITURES ARE ESTIMATED AT Z834 MILLION, WITH Z800 MILLION GOING FOR CURRENT ACCOUNT EXPENDITURES AND Z34 MILLION FOR CAPITAL EXPENDITURES. THIS ALSO ASSUMES STRICT ADHERENCE TO PROGRAM ANNOUNCED IN MOBUTU'S DEC 1976 BUDGET SPEECH, INCLUDING IN PARTICULAR PRESIDENTIAL APPROVAL OF TREASURY'S THREE-MONTH PLAN,

CENTRAL BANK NON-PAYMENT OF ANY TREASURY EXPENDITURES NOT APPROVED BY PRESIDENT, DISPERSAL OF MANY FUNCTIONS OF OFFICE OF THE PRESIDENCY AND THEIR INCLUSION IN NORMAL BUDGET PROCESS, AND REINFORCEMENT OF POWERS OF FINANCE COMMISSIONER.

B. CREDIT: POLICY WILL BE AIMED AT DECELERATING GROWTH OF THE MONEY SUPPLY AND OF PRICES. TOTAL CREDIT EXPANSION FOR 1977 WILL BE HELD TO Z290 MILLION, OR 42 PER CENT OF THE 1976 LEVEL. NINETEEN MILLION ZAIRES OF THIS EXPANSION IS TO GO DIRECTLY TO GECAMINES. INTEREST RATES ON BANK DEPOSITS WILL BE ALLOWED TO  
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RISE TO TAKE INTO ACCOUNT RISK AND INFLATION AND IMPORT DEPOSITS ARE NO LONGER TO BE REQUIRED. PUBLIC SALARIES, HOWEVER, WILL BE HELD TO THEIR 1976 LEVEL. INFLATION IS HOPED TO BE HELD TO 30 PER CENT AS AGAINST 80 PER CENT FOR 1976.

C. BALANCE OF PAYMENTS: BOP DEFICIT IS TO BE HELD AT Z55 MILLION. THIS ASSUMES EXPORT RECEIPTS OF ONE BILLION ZAIRES BASED PRIMARILY ON GECAMINES PRODUCTION AND INCREASED REVENUE FROM COFFEE AND PETROLEUM EXPORTS, AND IMPORT EXPENSES OF Z815 MILLION. THESE IMPORTS WILL OF NECESSITY BE CONCENTRATED IN PRIORITY SECTORS OF FOOD, SPARE PARTS, PHARMACEUTICALS AND RAW MATERIALS. IT ALSO ASSUMES MAXIMUM GOVERNMENTAL FOREIGN EXCHANGE EXPENDITURES OF SDR 87 MILLION EXCLUDING DEBT SERVICE.

D. FOREIGN DEBT: TOTAL FOREIGN BORROWING/GUARANTEES IS NOT TO EXCEED SDR 100 MILLION FOR ONE TO TEN YEAR MATURITY LOANS. NOT INCLUDED IN THIS FIGURE ARE EXPECTED \$250 MILLION TO BE GENERATED BY THE LONDON AGREEMENT OR REFINANCING OF OFFICIAL DEBT RE-SCHEDULING.

9. IN CONCLUDING BOFOSSA NOTED THAT IN ORDER TO SUCCEED ZAIRE WILL HAVE TO COUNT ON OUTSIDE ASSISTANCE OR COOPERATION, AND ZAIRE WILL LOOK TO INTERNATIONAL FINANCIAL COMMUNITY FOR AN AGREEABLE WAY OF COMBINING FOREGOING PROGRAM WITH COUNTRY'S DEVELOPMENT NEEDS. THIS WOULD INCLUDE FURTHER LIGHTENING OF DEBT SERVICE BURDEN, ESTIMATED AT Z250 MILLION FOR 1977 DESPITE THE 1976 PARIS CLUB CONSOLIDATION. ZAIRE INTENDS TO RAISE THIS PROBLEM WITH PARIS CLUB AND IS LOOKING EXPECTANTLY TOWARD JUNE CONSULTATIVE GROUP MEETING AS WELL. END UNCLASSIFIED

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10. COMMENT: BARRING SEVERE DISLOCATIONS IN SHABA, WE EXPECT GOZ CAN PROBABLY COME CLOSE TO REVENUE TARGETS OUTLINED IN BOFOSSA'S PRESENTATION. WE HAVE PREVIOUSLY ESTIMATED THAT NEW COFFEE AND PETROLEUM TAXES MIGHT RAISE ABOUT Z82 MILLION IN NEW REVENUES IN 1977 (REF B) AND FURTHER REVENUES SHOULD ACCRUE FROM CHARGES ON ELECTRICITY, WATER, POSTS AND TELECOMMUNICATIONS. WE REMAIN QUITE DUBIOUS, HOWEVER, THAT GOZ WILL BE ABLE TO LIVE WITHIN  
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EXPENDITURE TARGETS, THE MORE SO GIVEN THE NEW PRESSURES FOR SPENDING THAT ARISE AS RESULT OF CONFLICT IN SHABA. TO TAKE ONE EXAMPLE, THE SHABA CONFLICT MAKES IT VITAL THAT ONE GROUP OF PUBLIC EMPLOYEES, FAZ SOLDIERS, BE PROMPTLY AND ADEQUATELY PAID. THIS WILL ALMOST CERTAINLY UNDERMINE THE GOAL OF FREEZING PUBLIC SECTOR SALARY EXPENDITURES. TO TAKE A SECOND EXAMPLE, PLANS TO REDUCE THE DEVELOPMENT BUDGET TO ALMOST NOTHING WILL PROBABLY HAVE TO BE RECONSIDERED. DIMINISHING PUBLIC AND PRIVATE INVESTMENT HAS BEEN PRINCIPAL FACTOR IN DECLINES OF REAL GDP OF 6.1 PER CENT IN 1975 AN 1.0 PER CENT IN 1976. TO CARRY THROUGH A PROGRAM OF VIRTUALLY ZERO PUBLIC INVESTMENT IN 1977 WOULD BE TO REDUCE GROWTH POTENTIAL NOT ONLY FOR 1977 BUT FOR YEARS TO COME.

11. GOZ EXPORT AND IMPORT PROJECTIONS APPEAR SOMEWHAT CONSERVATIVE. WE ESTIMATE THAT 1977 EXPORTS MAY REACH \$1344 MILLION AND BELIEVE THAT IMPORTS SHOULD REACH \$1100 MILLION TO ASSURE REASONABLE RATE OF ECONOMIC GROWTH. (NOTE: \$1100 MILLION IN IMPORTS OF GOODS CORRESPONDS TO FIGURE OF \$1500 MILLION IN IMPORTS OF GOODS AND SERVICES WHICH WE USED IN REF A). WE ALSO BELIEVE THAT GOZ BALANCE OF PAYMENTS PROJECTIONS ARE POSITED ON ASSUMPTION OF NEW CAPITAL FLOWS THAT ARE, IN FACT, UNLIKELY TO MATERIALIZE. IT APPEARS, FOR EXAMPLE, THAT BOFOSSA IMPLICITLY PROJECTS \$250 MILLION IN LONDON AGREEMENT CREDITS TO BE AVAILABLE IN 1977. HOWEVER, BASED ON FRIEDMAN'S COMMENTS DURING HIS VISIT HERE, WE DOUBT THAT MUCH, IF ANY, OF THIS MONEY WILL BE AVAILABLE IN 1977. FURTHERMORE, WE FEAR GOZ MAY HAVE PROGRAMMED OTHER

NEW CREDITS AND FURTHER PUBLIC DEBT RESCHEDULING INTO ITS BALANCE OF PAYMENTS ESTIMATES.

12. IN THIS RESPECT, WE DRAW DEPARTMENT'S ATTENTION TO BOFOSSA'S BROAD HINT THAT GOZ WILL ASK FOR EVEN LIGHTER DEBT RESCHEDULING TERMS FOR 1977 MATURITIES UNDER THE PARIS CLUB MEETING IN JUNE. THIS IS CONSISTENT WITH CENTRAL BANK'S EARLIER COMMENT TO CITIBANK RE INGA-SHABA LOAN GUARANTEED BY EXIM (REF E).

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## Message Attributes

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